



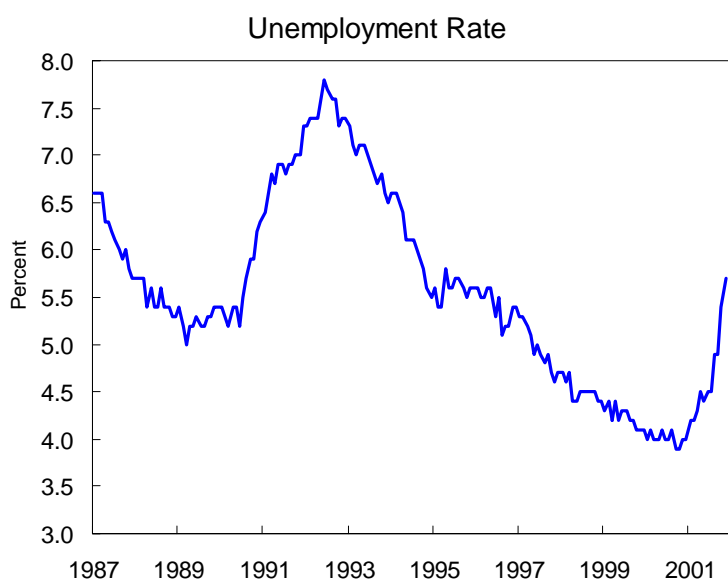
WEEKLY ECONOMIC DIGEST



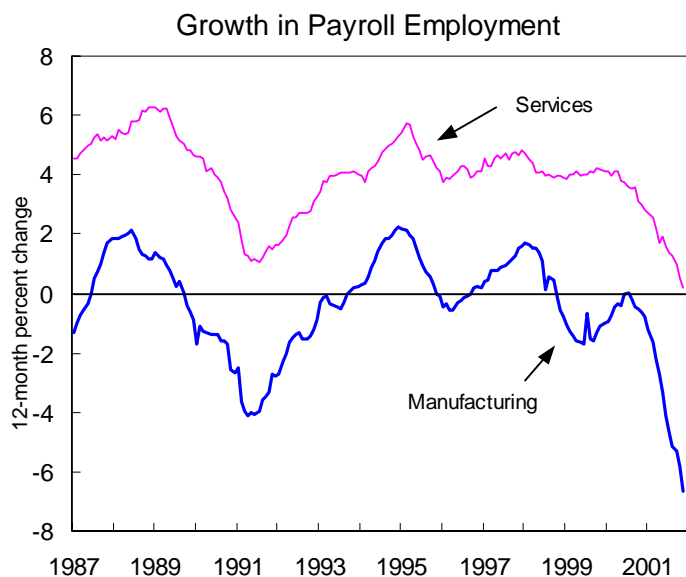
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – VICE CHAIRMAN

December 11, 2001

Weaker Labor Markets Likely to Spur Another Fed Cut



Source: Bureau of Labor Statistics, U.S. Department of Labor.



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- **Unemployment rose in November.** The civilian unemployment rate rose by 0.3 percentage points to 5.7 percent in November. Since October of last year, when the unemployment rate was 3.9 percent, the jobless rate has risen by 1.8 percentage points, its fastest 13-month increase in nearly two decades.
- **Long-term unemployment rose sharply.** The number of people unemployed for at least 15 weeks rose by 336,000, so that more than one in four of the 8.2 million people unemployed in November are among the long-term unemployed. Moreover, about 1.2 million people have now been jobless for more than 27 weeks. Typically, regular unemployment insurance benefits expire after 26 weeks.
- **Factory payrolls declined more sharply than expected.** Declines in manufacturing payrolls deepened as 163,000 factory jobs were lost last month. As a result, manufacturing employment was 6.6 percent below its level of a year earlier. Significant declines were recorded in those establishments producing electrical equipment, industrial machinery and fabricated metals.
- **Service-sector jobs still dropping.** Although somewhat smaller than October's drop, declines in private service-producing employment were significant in November: 158,000 jobs were lost. Leading those declines were job losses for suppliers of temporary help, a sector that has lost more than half a million jobs over the last year largely due to a strong dependence on manufacturing demand.
- **The Fed is likely to cut rates further.** The Federal Open Market Committee (FOMC) meets today to discuss whether to further reduce short-term rates. In recent weeks, statements by various Federal Reserve officials have emphasized both the continued weakness of the economy as well as the central bank's ability to still provide effective monetary stimulus. Moreover, pricing in forward funds markets has built in the anticipation of another cut this year. Although there have been some hopeful hints in business surveys that suggest to some analysts that the worst is over, the weak employment report for November makes it very likely that the FOMC will decide to cut the funds rate for the eleventh time this year.

Economy At A Glance	Nov	Oct	Sep	Aug	2001 Qtr 3	2001 Qtr 2	2001 Qtr 1	2000 Qtr 4	2000	1999
Economic Activity										
Real GDP (% growth)					-1.1	0.3	1.3	1.9	4.1	4.1
Industrial Production (% growth)*		-13.5	-10.3	-4.7	-4.8	-5.9	-6.1	-2.6	4.5	3.7
Capacity Utilization (Level, %)*		74.6	75.5	76.3	76.2	77.4	78.9	80.7	81.8	82.2
Civilian Unemployment Rate (Level, %)	5.7	5.4	4.9	4.9	4.8	4.5	4.2	4.0	4.0	4.2
Housing Starts (Thousands)		1552	1572	1559	1594	1623	1627	1539	1575	1647
Real Disposable Personal Income (% growth)		-25.1	-7.0	25.3	12.8	2.4	2.7	4.2	3.5	2.5
Retail Sales (% growth)*		128.5	-23.5	2.7	-1.3	5.2	5.0	0.3	7.6	8.2
Personal Saving Rate (Level, %)		0.2	4.6	4.2	3.7	1.1	1.1	1.0	1.0	2.4
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)*		-3.5	4.9	1.2	0.7	3.1	4.2	2.9	3.4	2.2
Core CPI-U Inflation (% growth)*		2.4	2.4	2.4	2.5	2.6	3.2	2.4	2.4	2.1
Compensation per Hour (% growth)					3.6	4.1	4.5	3.6	4.4	3.5
Output per Hour (% growth)					1.5	2.1	-0.1	2.3	3.0	2.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	1.9	2.2	2.6	3.4	3.2	3.7	4.8	6.0	5.8	4.6
T-Note Rate, 10-years (Level, %)	4.7	4.6	4.7	5.0	5.0	5.3	5.1	5.6	6.0	5.7
Federal Funds Rate (Level, %)	2.1	2.5	3.1	3.7	3.6	4.3	5.6	6.5	6.2	5.0
Dow Jones Industrial Avg (Index Level)	9722	9221	9043	10315	9934	10669	10513	10586	10735	10465

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week.

Major Economic News Due This Week:

- **Federal Open Market Committee Meeting** [Release: Tuesday, December 11, 2001]
- **Retail Sales, November Advance** [Release: Thursday, December 13, 2001]
- **Consumer Price Index, November** [Release: Friday, December 14, 2001]
- **Industrial Production, November** [Release: Friday, December 14, 2001]